

Audit Committee – 26 February 2021

Title of paper:	Audit Committee Terms of Reference	
Director(s)/ Corporate Director(s):	Clive Heaphy, Strategic Director of Finance	Wards affected: All
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Other colleagues who have provided input:	Malcolm Townroe, Director of Legal & Governance Nancy Barnard, Governance Manager James Schrodell, Policy & Performance Manager Elaine Fox, Policy Officer	
Recommendation(s):		
1	To recommend to Council that it approves the adoption of a revised Terms of Reference for the Audit Committee and amends the Constitution accordingly	
2	To note the outcome of the review by CIPFA	
3	To note the end of Audit Committee oversight of the Partnership Governance Framework, including annual health checks and the Register of Significant Partnerships and the associated workstream	

1 Reasons for recommendations

- 1.1 A review of the Audit Committee Terms of Reference was mandated as part of the Report in the Public Interest on which the Committee have been consulted. An internal review was conducted followed by an external review of the existing and proposed terms of reference by CIPFA which included consultation with the Chair. The report presents the resulting draft terms of reference for review by committee and endorsement.
- Appendix 1 Proposed Audit Committee Terms of Reference
- 1.2 This report supports the Audit Committee in fulfilling its purpose and function within the Council's governance system. The Committee's role should support the Council over its 3 year Recovery & Improvement Plan.
- 1.3 The Partnership Governance Framework was put in place by Executive Board Commissioning Sub-Committee in May 2009, and oversight was transferred to Audit Committee's in October 2012. The strategic context for the Council has changed significantly since these dates. In addition some of the reasons for the decision to set up such a framework are achieved through other means, for example in respect of accountable body responsibilities and joint committees. Ending Partnership Governance Framework oversight enables the Audit Committee to focus on broader priorities within the Council's Recovery & Improvement Plan 2021-24 which envisages rationalisation of modes of delivery under a coherent strategy.

2 Background

- 2.1 The Committee's Terms of Reference were last amended in May 2019 to enable reviewing the Constitution in order to recommend to Council proposed non-executive amendments. The Terms of Reference are primarily based on the Position Statement

on Audit Committees in Local Authorities and Police issued by CIPFA in 2018. The proposed Audit Committee Terms of Reference at Appendix 1 are set out in the new standard form for Committee terms of reference.

- 2.2 Audit Committees are necessary to satisfy the legal and governance requirements for sound management and internal control. Specifically they help satisfy
- section 151 of the Local Government Act 1972 which requires every local authority to ‘make arrangements for the proper administration of its financial affairs’, and
 - the Accounts & Audit Regulations 2015 which require that the authority ensures that it has a sound system of internal control which:
 - (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - (b) ensures that the financial and operational management of the authority is effective; and
 - (c) includes effective arrangements for the management of risk.

- 2.3 The overarching purpose of an Audit Committee is to provide independent assurance on the adequacy and integrity of the governance and control environment, the Risk Management Framework, and the annual financial reporting process.

Purpose and Functions of the Committee

- 2.4 The Audit Committee fulfils the purpose and functions listed in Appendix 1
- under delegations from Executive Board / Leader as noted in the Constitution – Responsibilities for Functions and Terms of Reference
 - under PSIAS as a consequence of the Accounts and Audit Regulations 2015.

3 Proposals

- 3.1 It is proposed to discontinue the annual Partnership Governance process for the following reasons:
- The way the City Council works in partnership with other organisations has changed since this process began and the partnerships themselves have changed; many do not operate with significant finances or a formal secretariat function.
 - Most of the partnerships are subject to other scrutiny arrangements, especially where they deliver services or control money. Therefore, the Partnership Governance process is effectively a duplication of other processes already in place – these processes include the Annual Governance Statement, official inspections and formal oversight via various organisations’ Accountable Body status.
 - For any partnerships for which the Council is the Accountable Body, the Constitution states (pg29) that “an Accountable Body Team shall be appointed to ensure that the requirements of the Chief Finance Officer are met”, so any financial risk from a relevant partnership would be identified by this team who would have access to budgets and all financial decisions.
 - Where a partnership is City Council-led, they may have a Board Manager or are well supported with their governance by the Council’s Governance Services, so this scrutiny would not be required.
 - Where Nottingham City Council is one partner of several making up a partnership Board, it would be more appropriate for the whole partnership to conduct a review where necessary, rather than just one member.
 - The process looks only at governance, it does not look at deliverability of plans and how these sit alongside the Council’s priorities.

- It explicitly does not examine the partnerships' financial transactions and decisions, so if the aim of this process is to mitigate against financial risk this process is not robust.
- The process is currently led by the Policy, Performance and Partnerships team who have no other auditing responsibilities or experience. Policy and Performance therefore act as an in-between point in the process, and must refer technical questions and final views on scoring to the Internal Audit team.

3.2 In order to achieve the proposal objective 11 has been changed. In practice this does not prevent the audit committee reviewing partnership arrangements, the report suggests removing the formal partnership governance framework and formal partnership health assessment.

3.3 A draft of these terms of reference was submitted for external review by CIPFA. The review concluded that the terms of reference

- cover the important key areas CIPFA would expect see in enabling an effective Audit Committee
- are in accordance with recognised good practice including the PSIAS and CIPFA guidance
- fare well against a substantial grouping of similar unitary authorities that CIPFA looked at and are generally more extensive in scope.

3.4 However CIPFA suggest that additional emphasis be placed on areas that have emerged as constituting some high level risk to the Council as follows:

- **Company assurance** – specific emphasis on the need for stronger governance of linked incorporated bodies
- **Value for Money (VfM)** - more emphasis could be made of the focus on VfM and on demonstrating that the Council's overall approach to VfM is in line with governance objectives and the assurance provided within the Annual Governance Statement (AGS)
- **Capital Programme Management and Financing** – On affordability, comparative data and resilience analysis suggests borrowing sustainability issues and asset realisation as a source of financing has been challenging with emerging market conditions highlighting potentially more difficult sale optimisation with variable valuations –this should come under the scope of work within the terms of reference to recognise a lack of traction on the management of Capital Projects and related spend.
- **Financial Strategy and Reserves** – The 'Role of the Chief Financial Officer (CFO) in Local Government (CIPFA, 2016)' emphasises the importance of having an effective audit committee in supporting the CFO as well as the Chief Executive and Council itself. Within proposed terms of reference Purpose 6, the Audit Committee should more explicitly recognise governance risks around high level financial strategy and take an active role in considering the implications of the potential for
 - The CFO having to issue a s114 Notice (s114 Local Government Finance Act 1988)
 - The External Auditor issuing a Report in the Public Interest (s24 Local Audit & Accountability Act 2014)
- **Accountability and Reporting** - PSIAS requires that "*The chief audit executive must report functionally to the board. The chief audit executive must also*

establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.” CIPFA were not sure whether that position is reinforced within Table 2 – Duties of the Board.

- 3.5 Regard has been given to CIPFA’s views above and emphasis has been added to Purpose 6. In respect of accountability and reporting, it is considered that the Duties of the Board taken together with the responsibilities of Senior Management set out in the Audit Charter (approved by this Committee at its September 2020 meeting within the Internal Audit Annual Report), provide the reinforcement of the PSIAS requirements. In practice the Head of Audit & Risk carries out this role and the role conforms to the access, communication and reporting requirements of PSIAS set out above.

4 Background papers other than published works or those disclosing exempt or confidential information

- 4.1 CIPFA - Preliminary comments on proposed terms of reference for the Audit Committee

5 Published documents referred to in compiling this report

- 5.1 Local Government Act 1972
- 5.2 Accounts and Audit Regulations 2015
- 5.3 Public Sector Internal Audit Standards (2017 update)
- 5.4 Position Statement on Audit Committees in Local Authorities and Police (CIPFA, 2018)
- 5.5 Nottingham City Council Recovery & Improvement Plan 2021-24
- 5.6 Local Government Finance Act 1988
- 5.7 Local Audit and Accountability Act 2014
- 5.8 Role of the Chief Financial Officer (CFO) in Local Government (CIPFA, 2016)